FISCAL NOTE

Bill #:	HB0304	**Title:**	Revise coal severance tax for electrical energy production
Primary Sponsor:	Olson, A	**Status:**	Second Reading

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY 2004 **Difference**	FY 2005 **Difference**
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	0
Net Impact on General Fund Balance:	$0	$0

☒ Significant Local Gov. Impact	☐ Technical Concerns
☐ Included in the Executive Budget	☒ Significant Long-Term Impacts
☐ Dedicated Revenue Form Attached	☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. Current law provides that coal sold to a new electricity generating plant that offers half its output in Montana at rates set by the Public Service Commission is to be taxed at one-third the normal rate. Under current law, this rate reduction applies to generating plants constructed between December 31, 2001 and January 1, 2008. This bill extends the sunset date to January 1, 2012.
2. This bill does not change taxes in effect until January 2008 and will have no impacts in the biennium.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

7.75% of coal severance tax receipts are allocated to a state special revenue account to pay for local impact mitigation and other local government costs (MCA, 15-35-108 (3)). Any future revenue reductions will reduce state funds available to pay these local costs.

LONG-RANGE IMPACTS:

At this time, it is unknown whether any new coal-fired electricity generating plants will become operational in the years 2008 through 2011. One new coal-fired electricity generating plant is in the planning stage and, if it becomes operational as currently planned and offers half its output for sale in state at rates set by the Public Service Commission, it could qualify for the reduced rate under current law. A similar plant completed in the years 2008 through 2011 could receive a similar tax reduction.

The Roundup Power Project is expected to begin production in 2006. It will burn approximately 2.6 million tons of coal per year. Average contract sales price for coal in 2006 is projected to be approximately $6 per ton. At the regular tax rate of 15%, severance tax on coal for this facility would be $2.34 million per year (15% x $6/ton x 2.6 million tons). At the reduced rate of 5%, severance tax on coal for this facility would be $0.78 million per year (5% x $6/ton x 2.6 million tons). If this facility qualifies for the reduced rate, severance tax collections would be reduced by $1.56 million per year ($2.34 million - $0.78 million) beginning in fiscal 2006.